



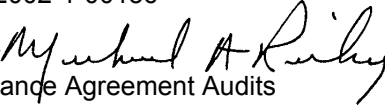
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

August 15, 2002

Memorandum

Subject: Auditor's Report for the Oregon Department of Environmental Quality Clean Water State Revolving Fund as of June 30, 2001
Audit Report No. 2002-1-00136

From: Michael A. Rickey 
Director for Assistance Agreement Audits

To: John Iani
Regional Administrator
EPA, Region 10
Seattle, WA

Attached is a copy of the subject audit we sent to the State of Oregon. The audit contains reports on the financial statements, internal controls, and compliance requirements applicable to the Oregon Department of Environmental Quality Clean Water State Revolving Fund program for the year ended June 30, 2001.

We issued an unqualified opinion on the financial statements and on the compliance requirements applicable to the Clean Water SRF program. In addition, we did not note any matters involving the internal control system and operations that we consider to be material weaknesses.

Since we did not have any compliance matters or costs questioned, and we are closing the audit report on issuance.

The OIG has no objection to the release of this report to any member of the public upon request. The report contains no confidential business or proprietary information.

If you have any questions or concerns regarding this matter, please feel free to contact Mr. William Dayton at (916) 498-6590 or Ms. Jan Lister at (415) 947-4532.

Attachment



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

August 15, 2002

Mr. Michael LLeuwelyn, Administrator
Water Quality Division
Department of Environmental Quality
State of Oregon

Re: Final Report of Audit of Financial Statements of the Oregon Clean Water State Revolving Fund for
the year ended June 30, 2001

Dear Mr. LLeuwelyn:

Attached please find an electronic copy of the Oregon Clean State Water Revolving Fund (the Fund)
audited financial statements for the year ended June 30, 2001.

In order to present the financial statements in accordance with generally accepted accounting principles,
we made certain proposed adjustments to the state's financial statements, with which your staff has
agreed.

We would like to take this opportunity to thank you and your staff for the cooperation and courtesies we
received during our audit. Please feel free to call or Mr. William Dayton at (916) 498-6590 or Ms. Jan Lister
at (415) 947-4532 should you have any comments or questions.

Sincerely,

A handwritten signature in black ink, reading "Michael A. Rickey".

Michael A. Rickey
Director for Assistance Agreement Audits

State of Oregon
Clean Water State Revolving Fund

***Financial Statements with
Independent Auditor's Report***

June 30, 2001

Audit Report Number 2002-1-00136

Issued August 15, 2002



Mt. Hood, Oregon

Inspector General Division
Conducting the Audit:

Western Audit Division
San Francisco, California

Region Covered:

Region 10

Program Office Involved:

Water Management Division

Auditors Conducting Audit:

Janet Lister
Eileen Collins

State of Oregon
Clean Water State Revolving Fund

Table of Contents

Independent Auditor's Report	1
Balance Sheet	2
Statement of Revenues, Expenses and Changes in Fund Balance	3
Statement of Cash Flows	4
Notes to the Financial Statements	5
Independent Auditor's Report on the Internal Control Structure Based on an Audit of the Financial Statements Performed In Accordance with Government Auditing Standards	13
Independent Auditor's Report on Compliance with the Requirements Applicable to the Environmental Protection Agency's State Revolving Fund Program in Accordance with Government Auditing Standards	16



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

Independent Auditor's Report

To: Michael Llewelyn, Administrator
Water Quality Division
Department of Environmental Quality
State of Oregon

We have audited the accompanying balance sheet of the Oregon Department of Environmental Quality Clean Water State Revolving Fund (the Fund) as of June 30, 2001, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The scope of our audit did not include an audit of the financial statements of the preceding year sufficient to enable us to express, and we do not express, an opinion on the balance sheet of the Fund as of June 30, 2000 or the related statements of revenue, expenses and changes in fund balance, and cash flows for the year then ended, nor do we express an opinion on the consistency of application of accounting principles with the preceding year.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Oregon Department of Environmental Quality Clean Water State Revolving Fund as of June 30, 2001 and the results of its operation and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1, the financial statements referred to above are intended to present the financial position and results of operations of the Oregon Department of Environmental Quality Clean Water State Revolving Fund, a component fund of the State of Oregon. These statements are not intended to present the financial position or results of operations for the State of Oregon or the Oregon Department of Environmental Quality, in conformity with accounting principles generally accepted in the United States, of which the Clean Water Revolving Fund is a part.

In accordance with *Government Auditing Standards*, we have also issued a report, dated April 5, 2002, on our consideration of the Oregon Department of Environmental Quality Clean Water State Revolving Fund's internal control structure and a report dated April 5, 2002 on its compliance with laws and regulations. Those reports are integral parts of an audit prepared in accordance with auditing standards generally accepted in the United States of America and should be read in conjunction with the report in considering the results of our audit.


Office of the Inspector General
Environmental Protection Agency
San Francisco, California

April 5, 2002

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund

Combining Balance Sheet
As of June 30, 2001 and 2000 (unaudited)

	-----2001-----			(Unaudited) 2000 Memorandum Only
<u>Assets</u>	<u>SRF</u>	<u>Administration</u>	<u>Total</u>	
Current Assets:				
Cash and cash equivalents	\$ 36,633,156	\$ 2,363,343	\$ 38,996,499	\$ 53,007,004
Current receivables:				
Loan interest	6,875,736	-	6,875,736	4,793,192
Due from EPA	67,792	-	67,792	75,741
Other	-	-	-	2,929
Current portion of loans receivable	6,955,306	-	6,955,306	14,735,814
Total current receivables	<u>13,898,834</u>	<u>-</u>	<u>13,898,834</u>	<u>19,607,676</u>
Total current assets	50,531,990	2,363,343	52,895,333	72,614,680
Non-Current Assets:				
Loans receivable, net of current portion	<u>220,208,471</u>	-	<u>220,208,471</u>	<u>183,217,087</u>
Total non-current assets	<u>220,208,471</u>	<u>-</u>	<u>220,208,471</u>	<u>183,217,087</u>
Total assets	<u>\$ 270,740,461</u>	<u>\$ 2,363,343</u>	<u>\$ 273,103,804</u>	<u>\$ 255,831,767</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	\$ -	\$ 19,822	\$ 19,822	\$ 4,846
Construction costs payable	86,720	-	86,720	941,051
Payroll payable	-	47,832	47,832	50,763
Unearned interest	-	-	-	2,204
Due to other funds	-	138	138	108
Total liabilities	86,720	67,792	154,512	998,972
Fund Equity:				
Contributed capital:				
Environmental Protection Agency	194,099,814	-	194,099,814	189,429,528
State of Oregon	41,264,710	-	41,264,710	38,259,407
Fund balance	<u>35,289,217</u>	<u>2,295,551</u>	<u>37,584,768</u>	<u>27,143,860</u>
Total fund equity	<u>270,653,741</u>	<u>2,295,551</u>	<u>272,949,292</u>	<u>254,832,795</u>
Total liabilities and fund equity	<u>\$ 270,740,461</u>	<u>\$ 2,363,343</u>	<u>\$ 273,103,804</u>	<u>\$ 255,831,767</u>

The accompanying notes are an integral part of these financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund

Combining Statement of Revenues, Expenses and Changes in Fund Balance
For the year ended June 30, 2001 and 2000 (unaudited)

	-----2001-----			(Unaudited) 2000 Memorandum Only
	<u>SRF</u>	<u>Administration</u>	<u>Total</u>	
Revenues:				
Loan interest	\$ 7,768,309	\$ -	\$ 7,768,309	\$ 5,799,560
Loan fees	-	903,383	903,383	506,282
Investment earnings	<u>2,427,367</u>	<u>104,739</u>	<u>2,532,106</u>	<u>3,429,348</u>
Total revenues	<u>10,195,676</u>	<u>1,008,122</u>	<u>11,203,798</u>	<u>9,735,190</u>
Expenses:				
Administrative costs:				
Salaries and benefits	-	575,835	575,835	539,260
Supplies and equipment	-	75,869	75,869	92,552
Indirect costs	-	108,257	108,257	114,701
Other	-	<u>2,929</u>	<u>2,929</u>	<u>(2,929)</u>
Total expenses	<u>-</u>	<u>762,890</u>	<u>762,890</u>	<u>743,584</u>
Revenues over expenses	10,195,676	245,232	10,440,908	8,991,606
Transfers in (out)	<u>(692,049)</u>	<u>692,049</u>	<u>-</u>	<u>-</u>
Revenues over expenses and transfers	<u>9,503,627</u>	<u>937,281</u>	<u>10,440,908</u>	<u>8,991,606</u>
Fund balance, beginning of year	<u>25,785,590</u>	<u>1,358,270</u>	<u>27,143,860</u>	<u>18,152,254</u>
Fund balance, end of year	<u>\$ 35,289,217</u>	<u>\$ 2,295,551</u>	<u>\$ 37,584,768</u>	<u>\$ 27,143,860</u>

The accompanying notes are an integral part of these financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund

Combined Statement of Cash Flows
For the year ended June 30, 2001 and 2000 (Unaudited)

	<u>Total</u>	(Unaudited) 2000 <u>Memorandum Only</u>
Cash flows from operating activities:		
Revenues over expenses and transfers	\$ 10,440,908	\$ 8,991,606
Adjustments to reconcile operating income to net cash flow provided by operating activities:		
(Increase) decrease in current receivables	(2,071,666)	(2,578,646)
Increase (decrease) in current liabilities	<u>(844,460)</u>	<u>(4,028,907)</u>
Net cash provided by operating activities	7,524,782	2,384,053
Cash flows from capital and related financing activities:		
Funds received from EPA	4,670,286	45,095,817
Funds received from the State of Oregon	<u>3,005,303</u>	<u>9,117,129</u>
Net cash provided by capital and related financing activities	7,675,589	54,212,946
Cash flows from investing activities:		
Loan disbursements	(45,514,957)	(75,914,038)
Repayment of loans	<u>16,304,081</u>	<u>8,408,931</u>
Net cash used in investing activities	(29,210,876)	(67,505,107)
Increase (decrease) in cash and cash equivalents	(14,010,505)	(10,908,108)
Cash and cash equivalents, beginning of year	<u>53,007,004</u>	<u>63,915,112</u>
Cash and cash equivalents, end of year	<u>\$ 38,996,499</u>	<u>\$ 53,007,004</u>

The accompanying notes are an integral part of the financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund

Notes to Financial Statements
June 30, 2001

1. Organization of the Fund

The Oregon Clean Water State Revolving Fund (the Fund) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act) and the Oregon Revised Statutes 468-423 - 468.440. The State Revolving Fund (SRF) replaces an earlier construction grants program. The purpose of the SRF is to provide low interest loans to local governments for the purpose of constructing wastewater treatment facilities, non-point source pollution control facilities, and estuary management plans. Loan repayment periods range from five to 20 years, and all repayments, including interest and principal, must be credited to the State Revolving Fund.

The Fund was capitalized by a series of grants from the U.S. Environmental Protection Agency (EPA) starting in 1989. State's are required to provide an additional 20 percent of the Federal capitalization grant amount as matching funds in order to receive the grant from EPA. As of June 30, 2001, EPA awarded \$206,323,547 in capitalization grants to the State, and the State is required to provide \$41,264,710 to the Fund as its matching share.

The SRF Program is administered by the State of Oregon's Department of Environmental Quality (ODEQ), and consists of various loan funds to record loan and related activity and an administrative fund that collects fees and pays the operating costs of the program, and are collectively referred to as the Fund. The Department's primary responsibilities for the SRF include obtaining capitalization grants from EPA, soliciting potential interested parties for loans, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, monitoring the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

The ODEQ oversees administration of the Fund. ODEQ staff charge the Fund for time spent on SRF activities, and the Fund reimburses ODEQ for such costs in the following month. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund. Employees charging time to the Fund are covered by the benefits available to Oregon State Employees. The Fund is also charged indirect costs through the cost allocation plan for general state expenses.

The Fund financial statements, footnotes, and related schedules are presented for the U.S. Environmental Protection Agency. The Fund is included in the Oregon general purpose financial statements as a special revenue fund which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the general purpose financial statements.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements for the Fund are presented as an enterprise fund. As such, the Fund is accounted for using the flow of economic resources measurement focus and using the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recorded at the time the liability is incurred. All assets and liabilities associated with the operations of the Fund are included in the balance sheet. The State has elected to follow the accounting pronouncements of the *Governmental Accounting Standards Board* (GASB), as well as statements issued by the *Financial Accounting Standards Board* (FASB) on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements.

The accompanying notes are an integral part of the financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund

Notes to Financial Statements
June 30, 2001

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

All monies of the Fund are deposited with the Oregon State Treasurer's Office which is responsible for maintaining these deposits in accordance with Oregon State law. The Fund considers all such deposits to be cash. Investment interest earnings on these deposits are received by the Fund on a monthly basis. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as discussed in Note 3. Consequently, management of the Fund does not have any control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Loans Receivable

Loans are funded by Federal capitalization grants from EPA, State matching funds, loan repayments and fund earnings. The SRF monies are disbursed to borrowers on a cost reimbursement basis. When the borrowers have incurred qualifying expenses, they request a loan disbursement from the Fund, and at that time, a disbursement is made and recorded in the Fund accounting records. Interest begins accruing when funds are disbursed to the borrower. After the final disbursement repayment begins with an interest only payment. Full repayment must be received by the Fund within 20 years of project completion. There is no provision for uncollectible accounts, as all repayments are current, and management believes all loans will be repaid according to the loan terms.

Contributed Capital

In accordance with generally accepted accounting principles (GAAP), funds received from the EPA and the State of Oregon for the capitalization of the Fund are recorded under equity as contributed capital.

Administrative Costs

Operating costs expenses are paid by the administration fund. The primary SRF fund draws the federal funds and reimburses the administration fund. The fund also charges loan fees to borrowers to fund future operating expenses.

Reclassifications

Certain amounts in the 2000 unaudited financial statements have been reclassified to conform to the presentation in the 2001 financial statements.

Budget Information

The Fund is included in the Department of Environmental Quality's budget as a "non-limited other fund", which is reserved for many funds which have fees as a primary source of revenue. The non-limited categorization allows the Fund to avoid the requirement of requesting additional appropriations from the State Legislature. For the biennium 1999 to 2001, the budget for the Fund was \$121 million.

The accompanying notes are an integral part of the financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund

Notes to Financial Statements
June 30, 2001

3. Cash and Cash Equivalents

All monies in the Fund is deposited with the State Treasurer's Office and are considered to be cash. The Treasurer is responsible for maintaining and investing the pooled cash balances in accordance with Oregon laws. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The Fund's share of the investment income is based on the average daily balance for the period and is credited to the Fund monthly. The Treasurer charges all funds of the State an administrative fee on a monthly basis. As of June 30, 2001, total Treasurer's average daily invested balance of the Treasury/Trust Fund Portfolio was \$7.56 billion. Details of the investments can be obtained from the State Treasurer's Office.

All cash and investments are stated at cost, which approximates fair market value. Investments held by the State Treasurer's Office are not categorized because they are not evidenced by securities that exist in physical or book entry form.

	<u>Carrying Amount</u>	<u>Market Value</u>
Not subject to categorization:		
Deposited with State Treasurer's Office	<u>\$ 38,996,499</u>	<u>\$ 38,996,499</u>

4. Loans Receivable

The Fund makes loans to qualified entities for projects that meet the eligibility requirements of the Clean Water Act. Loans are financed by capitalization grants, state match, interest earnings and revolving funds. Interest rates vary between 2.5 and 4.71 percent, depending on the length of the repayment period. In 1995 this rule was changed to base loan on the average rate for state and local bond issues. The rate for facilities planning loans is one-half the bond rate, and the rate for design and construction loans is the greater of either two-thirds the bond rate or the bond rate minus 200 basis points (two percent). Maturities are from five to 20 years. Recipients make semiannual or, in some cases, annual payments, starting six months after project completion. Interest during the construction period is calculated from the date funds are advanced until the final loan closing. Details of loans receivable as of June 30, 2001 are as follows:

Details of loans receivable as of June 30, 2001 are as follows:

	<u>Authorized Loan Amounts</u>	<u>Amount Disbursed</u>	<u>Principal Repaid</u>	<u>Outstanding Balance</u>
Fully disbursed loans	\$ 112,764,192	\$ 112,764,192	\$ 31,520,244	\$ 81,243,948
Active loans	198,925,043	152,015,952	6,096,123	145,919,829
Fully paid loans	<u>30,833,831</u>	<u>30,833,831</u>	<u>30,833,831</u>	<u>0</u>
Totals	<u>\$ 342,523,066</u>	<u>\$ 295,613,975</u>	<u>\$ 68,450,198</u>	\$ 227,163,777
Less amounts due within one year				<u>6,955,306</u>
Non-current loans receivable, June 30, 2001				<u>\$ 220,208,471</u>

The accompanying notes are an integral part of the financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund

Notes to Financial Statements
June 30, 2001

4. Loans Receivable (continued)

Loans mature at various intervals through September 1, 2024. The scheduled minimum principle repayments on loans for completed projects in subsequent years are as follows:

Year ending June 30:	<u>Amount</u>
2002	\$ 6,955,306
2003	10,162,635
2004	10,990,503
2005	11,060,437
2006	11,442,372
Thereafter	<u>176,552,524</u>
	<u>\$ 227,163,777</u>

Loans to Major Local Agencies:

From inception of the CWSRF as of June 30, 2001, the Fund made loans to 12 local governments that totaled \$10,000,000 or more, and in the aggregate, exceeded \$240,000,000. The outstanding principal balances of these loans represent approximately 78 percent of the total loans receivable, as follows:

<u>Borrower</u>	<u>Original Loan Amount</u>	<u>Outstanding Balance</u>	<u>Status</u>
City of Ashland	\$ 21,767,068	\$ 17,909,696	Active
City of Brookings	13,100,000	13,100,000	Active
City of Corvallis	21,963,693	21,767,205	Repayment
City of San Dallas	14,880,000	13,744,410	Repayment
City of Eugene	25,592,592	7,102,894	Repayment
City of Florence	13,480,958	11,952,735	Active
City of Gresham	44,768,954	37,701,383	Active
City of Newport	20,228,883	7,766,515	Active
City of Ontario	13,971,689	10,903,061	Repayment
City of Portland	14,105,382	0	Paid
City of Redmond	12,060,000	5,790,660	Active
City of Woodburn	<u>30,349,671</u>	<u>29,684,636</u>	Active
Total	<u>\$ 246,268,890</u>	<u>\$ 177,423,195</u>	

5. Fixed Assets

The only fixed assets are equipment. During fiscal year 2001 there were no purchases of equipment. In response to a recommendation by the EPA Office of Inspector General, as a result of the June 30, 1998 audit of the Fund, fixed assets were written off at June 30, 1999 in the amount of \$834.

The accompanying notes are an integral part of the financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund

Notes to Financial Statements
June 30, 2001

6. Contributed Capital and Fund Balance

The Fund is capitalized through the Catalog of Federal Domestic Assistance (CFDA) 66.458, Capitalization Grants for SRF through the EPA. These grants have been awarded annually. The State of Oregon must also contribute an amount equal to 20 percent of the federal capitalization amount.

Oregon's matching contribution has been provided through the appropriation of State general fund resources and general obligation bonds of the State. All funds drawn are recorded as contributed capital from the EPA and the State of Oregon. As of June 30, 2001, EPA has awarded capitalization grants of \$206,323,547 to the State, of which \$194,099,814 has been drawn for loans and administrative expenses. The State has provided matching funds of \$41,264,710.

The following summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

	<u>Grant Amount</u>	<u>Total Draws As of June 30, 2000</u>	<u>2001 Draws</u>	<u>Total Draws as of June 30, 2001</u>	<u>Grant Funds Available, June 30, 2001</u>
1989	\$ 10,655,073	\$ 10,655,073	\$ 0	\$ 10,655,073	\$ 0
1990	11,021,373	11,021,373	0	11,021,373	0
1991	23,183,622	23,183,622	0	23,183,622	0
1992	21,949,191	21,949,191	0	21,949,191	0
1993	21,712,581	21,712,581	0	21,712,581	0
1994	13,472,415	13,472,415	0	13,472,415	0
1995	13,914,054	13,914,054	0	13,914,054	0
1996	22,791,123	22,791,123	0	22,791,123	0
1997	7,011,959	6,892,141	119,818	7,011,959	0
1998	15,211,548	14,603,086	608,462	15,211,548	0
1999	15,212,835	14,680,063	31,561	14,711,624	501,211
2000	15,161,256	14,554,806	0	14,554,806	606,450
2001	<u>15,026,517</u>	<u>0</u>	<u>3,910,445</u>	<u>3,910,445</u>	<u>11,116,072</u>
Totals	<u>\$ 206,323,547</u>	<u>\$ 189,429,528</u>	<u>\$ 4,670,286</u>	<u>\$ 194,099,814</u>	<u>\$ 12,223,733</u>

State matching contributions as of June 30, 2000 and 2001 were:

	<u>Contributions June 30, 2000</u>	<u>2001 Contribution</u>	<u>Contributions June 30, 2001</u>
Oregon State Matching Contributions	<u>\$ 38,259,407</u>	<u>\$ 3,005,303</u>	<u>\$ 41,264,710</u>

The accompanying notes are an integral part of the financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund

Notes to Financial Statements
June 30, 2001

7. Loan Fees

In order to support administration and project management costs after the federal capitalization grant funds are depleted, loan fees are assessed on all loans originating after 1992. A loan origination fee of 1.5 percent is assessed at the beginning of the repayment period, and an annual fee of 0.5 percent is assessed on the outstanding balance. The fees are deposited to an account outside the Fund and will be used only for administrative and project management costs. Revenues in this account are shown in the table following:

	<u>One Time Fee</u>	<u>Annual Fee</u>	<u>Total Loan Fees</u>
FY 1994	\$ 0	\$ 325	\$ 325
FY 1995	1,189	0	1,189
FY 1996	114,629	33,764	148,393
FY 1997	63,335	59,577	122,912
FY 1998	140,641	72,422	213,063
FY 1999	155,710	83,706	239,416
FY 2000	349,738	156,545	506,283
FY 2001	<u>574,998</u>	<u>328,385</u>	<u>903,383</u>
Total	<u>\$ 1,400,240</u>	<u>\$ 734,724</u>	<u>\$ 2,134,964</u>

8. Contingencies and Subsequent Events

Contingencies

The Fund is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Fund business, or acts of God. The State maintains insurance for all risks of loss which is included in the indirect costs allocated to the Fund.

In previous years the State of Oregon has been named in suits against the Oregon Clean Water State Revolving Fund borrowers, by citizens either claiming unlawful sewer rate increases or unlawful debt. These suits have been decided in favor of our borrowers and the State of Oregon. No contingencies came to our attention during our audit which require disclosure or accrual under *Statement of Financial Accounting Standards No. 5*.

Related Parties

There are no related party transactions with or related to amounts receivable from management of the Fund.

The accompanying notes are an integral part of the financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund

Notes to Financial Statements
June 30, 2001

8. Contingencies and Subsequent Events (continued)

Subsequent Events

Subsequent to June 30, 2001, several events occurred that have a direct and material effect on the Fund's operations and the financial position as of June 30, 2001. These events are as follows:

The U.S. EPA awarded the fiscal year 2002 capitalization grant to the State on April 1, 2002 for a total of \$18,071,975, the federal component is \$15,059,979 and the required state matching funds is \$3,011,996.

The Fund also entered into 16 binding commitments, including new loans and increases and decreases to existing loans, totaling \$13,142,220, between July 1, 2000 and March 27, 2002.

On April 29, 2002, Fund management transferred \$3 million in funds from the administrative revenue fund into the SRF main fund. This was a one-time transfer made due to the high demand for loan funds and the relative profitability of the fees account.

No other subsequent events following the fiscal year-end required disclosure in these financial statements.

The accompanying notes are an integral part of the financial statements.

**Independent Auditor's Report on the
Internal Control Structure Based on an
Audit of the Financial Statements
Performed in Accordance with
*Government Auditing Standards***



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

TO: Michael LLeuwelyn, Administrator
Water Quality Division
Department of Environmental Quality
State of Oregon

We have audited the financial statements of Oregon Department of Environmental Quality Clean Water State Revolving Fund (the Fund) as of and for the year ended June 30, 2001, and have issued our report thereon dated April 5, 2002.

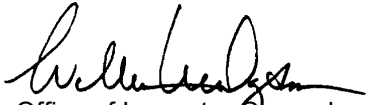
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The management of the Oregon Department of Environmental Quality Clean Water State Revolving Fund is responsible for establishing and maintaining an internal control structure. In fulfilling its responsibilities, estimates and judgements by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Oregon Department of Environmental Quality Clean Water State Revolving Fund for the year ended June 30, 2001, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management of the Oregon Department of Environmental Quality Clean Water State Revolving Fund and the United States Environmental Protection Agency. However, this report is a matter of public record and distribution is not limited.



Office of Inspector General
Environmental Protection Agency
San Francisco, CA

April 5, 2002

**Independent Auditor's Report
on Compliance with Requirements Applicable to the
Environmental Protection Agency's
State Revolving Fund Program
in Accordance with
*Government Auditing Standards***



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

TO: Michael LLeWelyn, Administrator
Water Quality Division
Department of Environmental Quality
State of Oregon

We have audited the financial statements of the Oregon Department of Environmental Quality Clean Water State Revolving Fund (the Fund) as of and for the year ended June 30, 2001, and have issued our report thereon dated April 5, 2002.

We have also audited the Fund's compliance with requirements governing the following:

- c Allowability for Specific Activities;
- c Allowable Costs/Cost Principles;
- c Cash Management;
- c State Matching;
- c Period of Availability of Funds and Binding Commitments;
- c Program Income;
- c Reporting;
- c Sub-recipient Monitoring, and;
- c Special tests and provisions;

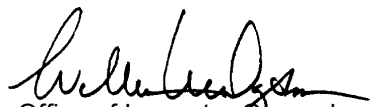
The above compliance requirements are applicable to the Oregon Department of Environmental Quality Clean Water State Revolving Fund Program for the year ended June 30, 2001. The management of the Fund is responsible for its compliance with those requirements. Our responsibility is to express an opinion on those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *U.S. Environmental Protection Agency, Clean Water State Revolving Fund Audit Guide* (June 1998). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements of the SRF program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

As part of obtaining reasonable assurance about whether the Oregon Department of Environmental Quality Clean Water State Revolving Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and grants, noncompliance with which could have a direct and material effect on the determination financial statement amounts. The results of our tests disclosed no instances of noncompliance that we are required to report under *Government Auditing Standards*.

In our opinion, the Oregon Department of Environmental Quality Clean Water State Revolving Fund complied, in all material respects, with the specific program requirements listed above for the year ended June 30, 2001.

This report is intended for the information of management of Oregon Department of Environmental Quality Clean Water State Revolving Fund and the United States Environmental Protection Agency. However, this report is a matter of public record and distribution is not limited.



Office of Inspector General
Environmental Protection Agency
San Francisco, CA

April 5, 2002

Report Distribution

EPA, Region 10:

Regional Administrator
Director, Water Division
State Revolving Fund Coordinator
Audit Followup Coordinator

EPA, Headquarters:

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Associate Administrator for Congressional
and Legislative Affairs
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And Public Affairs
State Revolving Fund Audit Manager
State Revolving Fund Branch, Office of Wastewater Management

Other:

State of Oregon, Department of Environmental Quality